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TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

The attached schedules provide an update of the Department's Fiscal Outlook since the last Health Department Budget Committee of the Whole of on January 18, 2005. The Department's forecast cumulative shortfall through Fiscal Year 2008-09 has increased from \$1.315 billion to \$1.414 billion.

Attachment B details the changes in the Department's fiscal forecast. Of greatest note is the fact that the Department's forecast surplus for the beginning of Fiscal Year 2005-06 has dropped from \$44.8 million to \$7.9 million; leaving the Department with little, if any, excess funds. The change in the forecast can be attributed to several factors, most significantly, the addition of funding for capital improvements or deferred maintenance at DHS facilities to ensure compliance with regulatory and accreditation standards, additional staff positions to manage assaultive patient behavior, and additional funding for the trauma center at Harbor-UCLA Medical Center to accommodate the additional patients resulting from the closure of the trauma unit at King/Drew Medical Center.

Capital Projects/Deferred Maintenance

As part of its assessment of King/Drew Medical Center, Navigant has reviewed the capital improvements necessary at the hospital to address regulatory and accreditation requirements regarding the environment of care. These range from renovations to the operating suites and the psychiatric emergency and inpatient units to repairs to the hospital's air handlers, waste line piping, and air ducting.

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The Department and Navigant have been working with the Chief Administrative Office, Department of Public Works (DPW), and Internal Services Department (ISD) to identify the scope and cost of these projects. The current estimate for all these repairs is \$63.8 million, not inclusive of the costs for move management associated with these projects or the SB 1953 seismic work that is already underway.

DPW and ISD are preparing the design work and seeking necessary approvals from the appropriate regulatory entities for these projects. Additionally, the Department has asked Navigant to provide a program for how the capital improvements integrate with the operational changes being put into place at the hospital. This renovation work is expected to be phased in over a period of two years.

The deferred maintenance issues identified at King/Drew Medical Center also exist at the other DHS hospitals. As a result, the Department has included in its Fiscal Year 2005-06 budget request, as well as factored into its five year forecast funds to support similar health and safety-related capital improvements. For Fiscal Year 2005-06, this amount is \$25.7 million, which includes a portion of the King/Drew Medical Center renovations. The Department's forecast assumes that the work at King/Drew Medical Center and the other facilities will be phased in over the next four years. Additionally, the amount included for King/Drew Medical Center in the Department's forecast is based on an earlier estimate and has not been updated to reflect the CAO's revised estimates. The cumulative five year amount for these improvements is \$57.4 million.

Psychiatric Services

As the Department has reported previously, the cost of providing emergency and inpatient psychiatric services far exceeds the level of reimbursement provided by the Department of Mental Health (DMH). DHS has been working with DMH over the past several years to address this imbalance of funding. Much of the work has centered on assessing and identifying the causes for the shortfall, as there is not agreement between the two departments.

The Department believes that it is underpaid for services provided and estimates that funding is \$36.2 million less than DHS facilities would be paid for the same work if paid at the State Maximum Allowable Rate. Contributing to this imbalance, DMH has doubled the number of patient response teams since last summer, and is planning to further increase the number of teams next fiscal year, which leads to an increase in the number of involuntarily held patients being brought to the Department's already crowded psychiatric emergency rooms.

DHS believes that its facilities see a higher proportion of patients on involuntary holds and with more complex psychiatric problems that require lengthier care than do private hospitals. Finally, federal and state requirements inhibit the ability of DHS hospitals to turn away patients when the psychiatric emergency rooms are full.

In contrast, DMH argues that DHS physicians rely on an older model of treatment that favors placement in locked facilities over early discharge to intensive outpatient treatment programs and that it pays a higher rate for these services than are provided to private sector facilities. DMH states that private hospitals do not operate separate psychiatric emergency rooms, and thus these charges should be considered to be included in the inpatient hospital rates paid to DHS. Finally, DMH believes that it has no financial obligation for those patients admitted to DHS facilities for co-occurring psychiatric and substance abuse problems, where substance abuse is the primary reason for admission.

As a result of collaboration between the two departments, a number of initiatives have been implemented to improve quality of care, including addressing the overcrowding of the psychiatric emergency rooms. However, these have met with limited success, given the volume of patients requiring care and the limited resources available. For example, the number of psychiatric emergency visits in the first half of Fiscal Year 2004-05 increased by 16 percent over the previous year. At the same, over 140 long-term locked psychiatric beds across the County have been closed over the past two and a half years.

DHS has established a "diversion" policy that utilizes the Medical Alert Center to redirect Los Angeles Police Department and DMH patient response teams bringing patients on 5150 psychiatric holds (e.g., those patients that present a danger to themselves or other) among DHS facilities, so if one hospital psychiatric emergency room is overwhelmed police are directed to the nearest available DHS hospital. However, all four of the DHS psychiatric emergency rooms regularly exceed their licensed capacity, so this new practice has had a limited impact on overcrowding.

Additionally, the following steps have been taken collaboratively by DHS and DMH:

- An urgent care pilot was initiated at King/Drew Medical Center to relieve stress on the psychiatric emergency room on weekends. A similar project is being developed at Olive View-UCLA Medical Center. While the King/Drew Medical Center pilot initially slowed volume into the psychiatric emergency department on weekends; the need for care is so significant that it appears to be having a minimal on-going impact.
- DMH has provided a one-time grant of \$400,000, through June 30, 2005, to allow the DHS hospitals to directly purchase inpatient psychiatric beds in the private sector (through June). While this flexibility and funding is helpful, the DHS facilities have had difficulty identifying available beds in the private sector or private psychiatric hospitals that will accept County patients, due to the severity of their illness.
- DMH also has provided DHS with \$800,000 in one-time funds for Fiscal Year 2004-05 to supplement existing staffing coverage to relieve crowding in the psychiatric emergency rooms.

The DHS hospitals have come under attention by regulatory and accrediting agencies in recent months due to high patient volume, which has placed greater urgency on the need for a solution. In light of insufficient funding by DMH for emergency and inpatient psychiatric

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services and the fact that DHS' subsidization of these services comes at the expense of other medical care, the Department has proposed to DMH that the psychiatric emergency rooms at LAC+USC, Harbor-UCLA, King/Drew, and Olive View-UCLA Medical Centers be closed.

Under this proposal, the inpatient psychiatric units would remain open and would admit patients either from the DHS emergency rooms or from private hospitals, as availability permits. DHS has indicated to DMH that under such a change, the Los Angeles County Sheriff, Los Angeles Police Department, local police agencies, and the DMH patient response teams would have to manage and distribute emergent, psychiatric patients on involuntary holds much in the same manner as medically emergency patients are treated, which is to deliver them to the nearest emergency room, not solely to County hospitals. If this redistribution of patients does not occur, the DHS medical emergency rooms would be overwhelmed with involuntarily held psychiatric patients. DHS executive leadership will be meeting with the facilities over the next month to assess the impact and feasibility of implementing this proposal and will be reporting back to your Board by the end of April on this matter.

State and Federal Funding

There continue to be a number of significant events, delineated in Attachment D, which, if they occur, would substantially alter the fiscal outlook for the worse. If all these items were to transpire, the Department's cumulative shortfall would grow to \$2.540 billion in Fiscal Year 2008-09. While the final details are not available with regard to federal and state efforts to restructure the Medicaid/Medi-Cal program, it does appear that the pace of negotiations has escalated over the past few weeks and an agreement may be reached shortly. Hospitals across state have been provided with broad outline of proposal; however without details, it is impossible to determine the net impact on hospital financing. For this reason, Attachment D does not include either the potential impact of the State's Medi-Cal redesign or the federal Medicaid restructuring proposals.

The Department also is continuing to develop further recommendations for addressing the forecast deficit and this proposal will be provided later in the spring.

I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

DHS Fiscal Outlook

Attachment B is a high level summary of the key developments, and their fiscal impact since our last update through January 11, 2005. Attachment C provides an update through February 23, 2005 of the Department's Fiscal Outlook. The estimated cumulative shortfall through FY 08-09 has increased from \$1,315.1 million to \$1,414.0 million. In the event that any of the following three events transpire, they could cause this estimate to increase, as follows:

	<u>\$ In Millions</u>
Estimated Cumulative Year-End Fund Balance/ (Shortfall) as of February 23, 2005	\$(1,414.0)
--Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2006, or thereafter	(337.8)
--Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration (June 30, 2005)	(236.0) *
--Federal Re-basing of SPCP Waiver	(552.9)
<u>Potential</u> Estimated Cumulative Year-End Fund Balance/(Shortfall) as of February 23, 2005	<u>\$(2,540.7)</u>

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

Of the \$568.7 million designation balance at the end of FY 03-04 [Attachment C, Line 13, Column (2)], the Auditor-Controller (A-C) has placed \$126.9 million in a reserve account for long-term receivables relating to CBRC revenue payments, for CBRC services provided through June 30, 2004, that will likely not be received by June 30, 2005. The expected delay in receiving these payments from the State is due to the time being taken to complete their annual audits of CBRC cost reports. Since the State is paying us for CBRC services based on highly conservative interim rates, pending completion of its CBRC cost report audits, the interim payments are expected to be much less than the final reimbursement made after audit completion. The consequence of placing a portion of the designation balance in the reserve account is that such funds are not available for use in the current fiscal year. Should a similar reserve be required at the end of FY 05-06, this would have the practical effect of decreasing the forecast \$7.9 million designation balance for FY 05-06 [Attachment C, Line 13, Column (4)] to a \$119.0 million shortfall (\$7.9M - \$126.9M).

* Updated to reflect the latest CBRC estimates as of February 23, 2005.

DHS Fiscal Outlook (cont.)

In attempt to alleviate this situation, we are requesting that the State increase its interim reimbursement rates and/or accelerate the completion of CBRC cost report audits. The State, however, may be reluctant to grant this request, since its cash basis accounting system would force recognition of any accelerated payments as an expense, adding to its budgetary shortfall.

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COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
 JANUARY 11, 2005 THROUGH FEBRUARY 23, 2005

	Fiscal Year / Columns / \$ in Millions					Total / (8)
	04-05 / (1)	05-06 / (2)	06-07 / (3)	07-08 / (4)	08-09 / (5)	
(1) Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - January 11, 2005	\$ 471.9	\$ 44.8	\$ (340.9)	\$ (803.3)	\$ (1,315.1)	\$ (1,315.1)
(2) Adjust <u>Capital Projects/Deferred Maintenance</u> for critically needed projects for DHS facilities per the DHS Budget Request for FY 05-06 submitted on January 28, 2005.	-	(25.7)	(19.6)	(8.8)	(3.4)	(57.5)
(3) Add costs for <u>Behavior Response Teams</u> to ensure the Department addresses CMS concerns related to the management of assaultive patient behavior per the DHS Budget Request for FY 05-06 submitted on January 28, 2005.	-	(5.6)	(5.6)	(5.6)	(5.6)	(22.4)
(4) Amortize " <u>unidentified budget surplus</u> " added by the CAO.	(20.0)	-	-	-	-	(20.0)
(5) CAO increase in <u>Vehicle License Fee</u> estimates for FY 04-05 through FY 05-06 received on February 23, 2005, and extended through FY 08-09.	3.9	4.0	4.0	4.0	4.0	19.9
(6) Update <u>CBRC revenue</u> estimates on January 17, 2005, to include audit results for various facilities for FY 01-02.	3.8	3.8	3.9	4.0	4.1	19.6
(7) Add costs for the <u>H/UCLA trauma center</u> to provide additional trauma services to K/DMC patients per the DHS Budget Request for FY 05-06 submitted on January 28, 2005.	-	(4.2)	(4.2)	(4.2)	(4.2)	(16.8)
(8) Adjust <u>employee benefits costs</u> for FY 04-05 based on the latest expenditure trends and for FY 05-06 primarily for changes in retirement costs and the LACERA credit provided by the CAO on February 22, 2005, and extended through FY 08-09.	(6.8)	(14.8)	(5.5)	16.4	1.8	(8.9)
(9) Adjust <u>fixed assets and LAC-CAL</u> estimates to allow for the purchase of critically needed equipment at DHS hospitals per the DHS Budget Request for FY 05-06 submitted on January 28, 2005.	-	(6.3)	-	-	-	(6.3)
(10) Auditor-Controller adjust <u>interest expense</u> per estimates received in January 2005.	(5.4)	-	-	-	-	(5.4)
(11) Adjust <u>LAC+USC Transition/EMR</u> estimates per estimates received on January 20, 2005.	7.5	37.3	(32.5)	(12.3)	-	-
(12) Change in <u>current fiscal year operating forecast</u> received in January 2005 / Other minor ongoing changes to the future years estimates.	(9.4)	1.0	1.9	2.5	2.9	(1.1)
(13) Forecast improvement/(reduction) roll-forward	-	(26.4) ^(B)	(36.9) ^(B)	(94.5) ^(B)	(98.5) ^(B)	-
(14) Revised ^(A) Estimated Cumulative Year-End Fund Balance / (Shortfall) - February 23, 2005	<u>\$ 445.5</u> ^(C)	<u>\$ 7.9</u>	<u>\$ (435.4)</u>	<u>\$ (901.8)</u>	<u>\$ (1,414.0)</u>	<u>\$ (1,414.0)</u>

Notes

- (A) Assumes Rancho and LAC+USC 100 beds will be closed June 30, 2006, CBRC/FQHC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$(26.4) million in FY 05-06 is \$445.5 million - \$471.9 million from FY 04-05.
- (C) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
FISCAL OUTLOOK - FEBRUARY 23, 2005
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS							TOTAL / (8)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	
1. Surplus/Deficit as of June 26, 2002		\$ (326.6)	\$ (549.2)	\$ (709.4)				
2. Scenario III Reductions / Use of Designation Funds	*(see note)	267.8	327.8	357.5				
3. Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)	*(see note)	\$ (58.8)	\$ (221.4)	\$ (351.9)	\$ (387.3) ^(A)	\$ (423.7) ^(A)	\$ (461.8) ^(A)	\$ (1,904.9)
4. Actual / Forecast Update **	263.9	340.0 ^(B)	363.4 ^(C)	5.7 ^(D)	(56.0) ^(D)	(237.4) ^{(D), (I)}	(711.5) ^{(D), (I)}	
5. Actual / Forecast Surplus/(Shortfall) ^{(E),(F)}	\$ 263.9	\$ 281.2	\$ 142.0 ^(L)	\$ (346.2) ^(L)	\$ (443.3) ^(L)	\$ (661.1) ^(L)	\$ (1,173.3) ^(L)	\$ (1,173.3)
6. Beginning Fiscal Year Fund Balance	121.0 ^(G)	353.1 ^(H)	452.8 ^(K)	594.8	248.6	-	-	-
7. Estimated Cumulative Year-End Fund Balance/(Shortfall) ^{(E),(F)}	\$ 384.9	\$ 634.3	\$ 594.8	\$ 248.6	\$ (194.7)	\$ (661.1)	\$ (1,173.3)	\$ (1,173.3)
8. Defer Rancho Closure (191 beds) to June 30, 2006	\$ -	\$ (49.5)	\$ (53.9)	\$ (59.5)	\$ -	\$ -	\$ -	\$ (162.9)
9. Impact to Beginning Fiscal Year Fund Balance	-	-	(49.5)	(103.4)	(162.9)	(162.9)	(162.9)	N/A
10. Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 584.8	\$ 491.4	\$ 85.7	\$ (357.6)	\$ (824.0)	\$ (1,336.2)	\$ (1,336.2)
11. Defer LAC+USC Medical Center 100 Bed Reduction to June 30, 2006	\$ -	\$ (16.1)	\$ (29.8)	\$ (31.9)	\$ -	\$ -	\$ -	\$ (77.8)
12. Impact to Beginning Fiscal Year Fund Balance	-	-	(16.1)	(45.9)	(77.8)	(77.8)	(77.8)	N/A
13. Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7 ^(J)	\$ 445.5	\$ 7.9	\$ (435.4)	\$ (901.8) ^(M)	\$ (1,414.0) ^(M)	\$ (1,414.0)
14. Use of Designation Funds - Decrease/(Increase)		\$ (183.8)	\$ 123.2	\$ 437.6	\$ 7.9	\$ -	\$ -	

NOTES TO FISCAL OUTLOOK

- * The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- ** Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement), the current year's portion of which is already included in the FY 03-04 budget.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Up to \$20.0M of the FY 03-04 SPCP/UPL dollars may require DSH flexibility to be retained.
- (C) Reflects release of the \$96.1M trust fund reserve.
- (D) If CBRC/FQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$62.7M, \$64.7M, \$66.6M and \$68.6M for FY's 05-06, 06-07, 07-08 and 08-09, respectively.
- (E) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels. These estimated reductions totaling \$552.9M, are \$97.6M, \$124.9M, \$152.1M and \$178.3M, for FYs 05-06, 06-07, 07-08 and 08-09, respectively, and are not reflected in the above. When the UPL is fully implemented, the value could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and potential future Medicaid reform create significant uncertainty regarding the Department's Fiscal Outlook.
- (F) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (G) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (H) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (I) These estimates do not take into account the opening of the LAC+USC replacement facility in July 2007. Per LAC+USC, current financial projections for the new LAC+USC will not be available until January 2005.
- (J) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.
- (K) Reflects a beginning fund balance of \$568.7M less the \$115.9M fund balance included in the FY 04-05 Supplemental Budget Resolution.
- (L) Reflects an "unidentified budget surplus" of \$80.0M for FY 04-05 and \$100.0M for FY's 05-06 through 08-09 added by the CAO.
- (M) The forecast annual operating shortfalls for FY's 07-08 and 08-09 are \$454.2M and \$512.2M, respectively.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
FISCAL OUTLOOK - FEBRUARY 23, 2005
POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS
(\$ IN MILLIONS BASED ON FY 04-05 SUPPLEMENTAL BUDGET RESOLUTION)

POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS:

Line #	FISCAL YEARS / COLUMNS							TOTAL / (8)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	
15. <u>Revised</u> Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 445.5	\$ 7.9	\$ (435.4)	\$ (901.8)	\$ (1,414.0)	\$ (1,414.0)
16. Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2006, or thereafter	\$ -	\$ -	\$ -	\$ -	\$ (103.5)	\$ (113.4)	\$ (120.9)	\$ (337.8)
17. Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration on June 30, 2005	-	-	-	(56.2)	(58.0)	(59.9)	(61.9)	(236.0)
18. Federal "Re-basing" of SPCP Waiver	-	-	-	(97.6)	(124.9)	(152.1)	(178.3)	(552.9)
19. Medi-Cal Redesign	-	-	?	?	?	?	?	?
20. Subtotal	\$ -	\$ -	\$ -	\$ (153.8)	\$ (286.4)	\$ (325.4)	\$ (361.1)	\$ (1,126.7)
21. Impact to Beginning Fiscal Year Fund Balance	-	-	-	-	(153.8)	(440.2)	(765.6)	N/A
22. Potential Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 445.5	\$ (145.9)	\$ (875.6)	\$ (1,667.4)	\$ (2,540.7)	\$ (2,540.7)

SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)^(a)

FISCAL YEARS 2002-03 THROUGH 2008-09

(\$ in millions)

Line #.	Line #. A.	Board Decision Date	Planned/ Imple- mentation Date	Status as of 02/23/05	PLANNED SAVINGS - LINE #. VS. FORECAST SAVINGS - LINE #. A.						
					2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
HOSPITALS											
1.	Planned reduction of LAC+USC 100 beds	10/02	05/03	Court	\$ 2.000	\$ 16.100	\$ 29.800	\$ 31.900	\$ 34.100	\$ 36.500	\$ 39.100
1. A.	Forecast savings (e)			injunction	(b)	(b) (c)	(c)	(c)	34.100	36.500 (n)	39.100
2.	Planned LAC+USC efficiencies	10/02	07/05		-	-	-	20.100	20.700	21.300	21.900
2. A.	Forecast savings (e)				-	-	-	20.100	20.700	21.300	21.900
3.	Planned 16% efficiencies at MLK/D	06/02	05/03		2.800	20.900	46.200	61.900	63.800	65.700	67.700
3. A.	Forecast savings (e)			07/03	(b)	20.900	20.900 (d)	33.115 (d)	52.671 (d)	60.013 (d)	60.130 (d)
4.	Planned closure of RLANRC or alternate governance	10/02 & 06/03	07/04		-	58.600 (m)	64.800	70.400	77.400	85.000	93.300
4. A.	Forecast savings (e)			Court injunction	-	9.100 (c)	10.894 (c)	10.894 (c)	77.400	85.000	93.300
6.	Planned conversion of HDH to a MACC	06/02	05/03		1.400	9.800	11.100	12.500	14.100	16.000	18.200
6. A.	Forecast Saving (e)			07/03	(b)	8.631 (b)	9.931 (f)	11.184	12.616	14.316	16.284
7.	Planned capital cost avoidance at HDH	06/02	07/02		2.000	0.900	-	-	-	-	-
7. A.	Forecast savings (e)				(b) (g)	(b) (g)	-	-	-	-	-
8.	Planned restructure of psych services	10/02	10/02	Negotiations ongoing	0.200	20.200	25.300	29.200	33.600	38.600	44.300
8. A.	Forecast savings (e)				0.250	7.721 (h)	9.662 (h)	15.149 (h)	15.149 (h)	15.149 (h)	15.149 (h)
COMPREHENSIVE HEALTH CENTERS											
9.	Planned CHC efficiencies	10/02	05/03		3.700	23.300	24.000	24.600	25.300	26.100	26.900
9. A.	Forecast savings (e)			07/03	(b)	9.864 (b)	11.476 (f) (1)	16.970	17.480	18.000	18.500
HEALTH CENTERS											
Northeast Area											
10.	Planned closure of 4 HC's	06/02	10/02		6.300	8.900	9.300	9.700	10.100	10.500	10.900
10. A.	Forecast savings (e)			10/02	6.300	8.900	9.300	9.700	10.100	10.500	10.900
Coastal Area											
11.	Planned closure of 1 HC	06/02	10/02		1.000	1.400	1.400	1.500	1.600	1.700	1.800
11. A.	Forecast savings (e)			10/02	1.000	1.400	1.400	1.500	1.600	1.700	1.800
Southwest Area											
12.	Planned closure of 4 HC's	06/02	10/02		12.700	18.100	18.700	19.400	20.200	21.000	21.800
12. A.	Forecast savings (e)			10/02	7.400	12.995 (b)	13.020 (f)	13.500	14.060	14.620	15.200
San Fernando Valley Area											
13.	Planned closure of 2 HC's	06/02	10/02		3.200	4.500	4.700	4.800	4.900	5.000	5.100
13. A.	Forecast savings (e)			10/02	3.200	4.500	4.700	4.800	4.900	5.000	5.100
Antelope Valley Area											
14.	Planned 5% efficiency from AV/DHS Partnership	06/02	10/02		0.030	0.200	0.200	0.200	0.200	0.200	0.200
14. A.	Forecast savings (e)			10/02	0.030	0.200	0.200	0.200	0.200	0.200	0.200
OTHER											
16.	Planned PPP visit reductions	06/02	09/02		12.500	15.000	15.000	15.000	15.000	15.000	15.000
16. A.	Forecast savings (e)			09/02	12.500	15.000	15.000	15.000	15.000	15.000	15.000
20.	Planned Public Health reductions	06/02	10/02		6.700	9.200	9.400	9.700	10.000	10.300	10.600
20. A.	Forecast savings (e)			07/02	7.500	7.730 (b)	7.960 (f)	8.200	8.450	8.700	9.000
21.	Planned contract out of OMC Admin	06/02	05/03		2.300	8.000	8.000	8.000	8.000	8.000	8.000
21. A.	Forecast savings (e)				2.300 (i)	(b)	-	-	-	-	-
22.	Planned cost/revenue adjustments (j)	10/02	07/03	07/03	-	25.700	41.600	38.600	38.600	38.600	38.600
SCENARIO III PLANNED SAVINGS TOTAL (k)					\$ 56.830	\$ 240.800	\$ 309.500	\$ 357.500	\$ 377.600	\$ 399.500	\$ 423.400
LESS: FORECAST SAVINGS AS OF 1/11/05					40.480 (l)	132.641	156.043	198.912	323.026	344.598	360.163
SAVINGS SURPLUS / (SHORTFALL)					\$ (16.350)	\$(108.159)	\$(153.457)	\$(158.588)	\$(54.574)	\$(54.902)	\$(63.237)
LESS: COURT ORDERED ENJOINED SAVINGS					-	65.60	83.71	-	-	-	-
ADJUSTED SAVINGS SURPLUS / (SHORTFALL)					\$ (16.350)	\$ (42.559)	\$ (69.751)	\$(158.588)	\$(54.574)	\$(54.902)	\$(63.237)

Note: Shaded items are revisions from the last Fiscal Outlook Update of 1/11/05. (Please refer to changes listed on Page 2)

The attached footnotes are an integral part of the Scenario III Summary Report.

SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)^(a)

FISCAL YEARS 2002-03 THROUGH 2008-09

(\$ in millions)

Notes:

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million. The savings projections originally projected in FY 03-04 have been covered by the surplus from DHS' FY 03-04 operations.
- (c) Pending outcome of the litigation (RLA - Rodde Case Scheduled Court Date 2/22/2005) and (LAC+USC/RLA - Harris Case Scheduled Court Date 4/26/2005). This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost. In FY 04-05, \$10.894 million reflects the cumulative savings with an additional \$1.794 million S&S savings in the FY 04-05 DHS Supplemental Budget Request due to reductions in contracts that will not affect Census.
- (d) Reflects a savings delay. Cuts that were to be taken on 7/1/04 will be delayed to 1/1/06; Cuts that were to be taken on 7/1/05 will be delayed to 1/1/07.
- (e) Revised savings as of February 23, 2005.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) DHS revised the FY 03-04 savings for psych services restructuring from \$20.2 million to \$16.5 million in savings for psych services restructuring. However, the CAO Supplemental Budget Resolution includes a savings of \$6.3 million (original psych services net cost of \$20.2 million less a reduction in net cost of \$10.5 million and adjusted for an error at K/DMC of \$4.3 million). Negotiations are still ongoing regarding the restructure, however, it appears there will be no additional savings beyond the \$6.3 million included in the CAO Supplemental Budget for FY 03-04. The FY 04-05 savings is based on the FY 04-05 DHS Supplemental Budget savings of \$9.7 million. FY's 05-06 through 08-09 reflect an additional \$5.5 million in revenue from DMH based on the agreement to transfer the FY 05-06 DMH Vehicle License Fee growth to DHS.
- (i) OMC met the \$2.3 million target through existing one time FY 02-03 operational savings, even though the contracting out to LA Care has not happened.
- (j) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (k) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (l) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (m) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (n) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

Changes made to shaded items are revisions from the last Fiscal Outlook Update of 1/11/05 as follows:

- (1) Line 9.A - FY 2004-05 Forecast savings of \$12.207 million decreased by \$0.731 million to \$11.476 million based on the Financial Performance Analysis Report provided by the facility for the month of December 2004.